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Development cooperation with middle-income countries

Report of the Secretary-General

Summary

As home to almost two thirds of the world's poor, middle-income countries are of considerable importance for promoting the United Nations agenda of development for all, including the achievement of the Millennium Development Goals. They also play an increasing role in advancing equitable and sustainable growth of the world economy.

Many middle-income countries have made remarkable economic and social progress on a broad front over the past two decades. Nonetheless, formidable challenges remain and daunting idiosyncratic difficulties linger for individual countries in such areas as poverty, health, education and climate change.

The United Nations system and the multilateral financial institutions have been important partners and facilitators for international development cooperation with middle-income countries. Greater efforts are needed, however, to draw on the lessons learned from the "delivering as one" initiative and other attempts to achieve greater system-wide coherence. The United Nations system currently needs a better-defined agenda to address both the common and the idiosyncratic challenges that middle-income countries face. While emphasis may vary depending on country needs, priorities should be given to perennial development challenges, such as poverty eradication and financial stability, and to emerging issues, especially addressing climate change. The United Nations system should also enhance its support to strengthening South-South cooperation.

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I. Introduction

1. At its sixty-third session, in 2008, the General Assembly recognized that middle-income countries still faced significant challenges in their efforts to achieve the internationally agreed development goals. It underlined the importance of various forms of international support that were well aligned with national priorities in order to address their development needs, and acknowledged the efforts made and successes achieved by many middle-income countries in eradicating poverty and achieving the development goals, as well as their contribution to global and regional development and economic stability. Recognizing the solidarity of middle-income countries with other developing countries, the Assembly invited the United Nations system to support middle-income countries and to improve its coordination and exchange of experiences with other international organizations, international financial institutions and regional organizations in that field.

2. In its resolution 63/223, the General Assembly requested the Secretary-General to submit a comprehensive report on development cooperation with middle-income countries, with a focus on existing strategies and actions of the United Nations system on development cooperation with middle-income countries, taking into account the work of other relevant international organizations, including international financial institutions. The present report responds to that request.

3. The resolution does not provide a precise definition of the category of middle-income countries. A widely used definition is that of the World Bank, which classifies middle-income countries as those with a per capita gross national income (GNI) of between $976 and $11,905. Based on 2008 data, 101 countries are in this group. The World Bank also defines $3,856 in per capita GNI as a further dividing line to make a distinction between upper and lower middle-income countries. Low-income countries in turn are those with a per capita GNI of less than $976, which also serves as an initial cut-off point on one of the criteria used by the United Nations to identify the eligibility of countries for the category of least developed countries. The present report adopts the World Bank definition of middle-income countries on an ad hoc basis.

4. Accounting for two thirds of the world population and almost 40 per cent of world gross product, the group of middle-income countries holds an important position in the world economy. With a number of large emerging economies in this group sustaining rapid growth over the past decade, the contribution of middle-income countries to global growth has increased steadily, reshaping global patterns of production, trade, capital flows, technology and labour conditions. Growth of the emerging economies has also produced synergies for other developing countries, through increased trade linkages, capital flows and South-South economic cooperation. Yet, despite notable reductions in extreme poverty, middle-income countries as a group are still home to 64 per cent of the world population that lives on less than $1.25 per day.

5. Comprised of a number of newly industrialized economies and economies that are highly reliant on primary natural resources, this group of countries is highly diverse in terms of population size, with one third of the group having a population of less than 2 million and several countries having populations exceeding 100 million, as well as in terms of social achievements, including as measured through progress towards the Millennium Development Goals.

6. Several middle-income countries have the potential to catch up with high-income countries. Many others face the risk of losing ground on previous achievements and falling into the low-income category, as they are, in varying degrees, vulnerable to economic crises and external shocks. The current global financial crisis, for instance, threatens to undo years of achievements in development in many middle-income countries.

7. Recognizing the diversity among these countries is important in identifying the challenges for their development and in emphasizing the need for the United Nations system to adopt flexible strategies and approaches in its cooperation with middle-income countries. The importance of, and the challenge for the engagement of the United Nations system in middle-income countries cannot be underestimated. For instance, this group still receives about 60 per cent of total aid flows provided by the Development Assistance Committee countries.[1]

8. The aim of the present report is to discuss the major challenges facing middle-income countries in their economic and social development, including both the domestic and the external constraints (chapter II) and to identify the achievements and needs for further engagement of the United Nations system in middle-income countries (chapter III). The implications of these findings are discussed in the final chapter (chapter IV).

II. Major challenges for the development of the middle-income countries

A. Progress in the development of middle-income countries

9. Middle-income countries have, in general, made remarkable progress over the last two decades in their economic and social development as measured by the achievement towards the Millennium Development Goals. However, progress varies significantly among and within them, and a number of them may not be able to meet the Millennium Development Goals by 2015.[2]

10. One of their greatest social challenges is to reduce poverty. Remarkable progress has been made towards halving the proportion of people living in extreme poverty by 2015. For example, over the past two decades approximately 548 million persons were lifted out of extreme poverty in 37 middle-income countries for which comparable data are available. This progress is, however, largely driven by some of the group's most populous countries, China, Indonesia, Pakistan, Brazil, the Russian Federation and Mexico. More than 458 million persons were lifted out of extreme poverty in China alone. In contrast, the proportion of people living in extreme poverty has increased or stayed unchanged in at least 37 middle-income countries. More than 925 million persons live in extreme poverty in middle-income countries. While poverty rates range from around 2 per cent to more than 60 per cent, middle-income countries are home to 64 per cent of the world's extremely poor. Further

[1] For a detailed analysis of official development assistance (ODA) to middle-income countries, see José A. Alonso, ed., *Cooperation with middle-income countries* (Madrid, Institute Complutense de Estudios, 2007).

[2] Data relating to the Millennium Development Goals are drawn from the MDG Database 2009 of the United Nations Statistics Division.

progress in these countries to reduce poverty is therefore crucial to meeting this Millennium Development Goal on a global scale.

11. To lift people out of poverty, efforts are needed in most middle-income countries to attain higher rates of employment growth and higher remuneration, especially at the lower end of the job ladder. In this regard, progress has been made towards the goal of achieving universal primary education, and several countries are on track to reach this goal. In a few there have been setbacks, however, such as in the Baltic States (Lithuania, Latvia) and in small island developing States (Saint Kitts and Nevis, Dominica and Jamaica). Moreover, in some countries, Djibouti, the Congo, Lesotho and Namibia, for instance, primary school enrolment is less than 75 per cent.

12. Priority should also be given to increasing enrolment in secondary and tertiary education. In one fourth of middle-income countries, gross enrolment rates in secondary school have increased by more than 50 per cent since 1990. They have doubled, for instance, in Thailand, Guatemala and Paraguay and quadrupled in Cape Verde. Nevertheless, access to secondary education remains a concern, particularly among the middle-income countries in sub-Saharan Africa, where gross enrolment rates are often below 50 per cent.

13. Several middle-income countries have managed to make significant progress in increasing enrolment in tertiary education, including in science and technology education. Doing so is important for strengthening competitiveness in global markets. Between 2001 and 2006, enrolment rates in tertiary education doubled in Mauritius and Romania, tripled in China and almost quintupled in Cuba. Yet, while in Cuba, Lithuania, Latvia, Ukraine and the Russian Federation enrolment rates in tertiary education exceed the average in high-income countries, rates remain very low in many other middle-income countries.

14. A number of middle-income countries have reduced the prevalence of major diseases and improved child and maternal health, but challenges remain. For instance, the spread of HIV/AIDS has been reduced in only a small number of middle-income countries. Stabilized in Latin America, HIV prevalence is still relatively high in the Caribbean and remains one of the greatest challenges in sub-Saharan Africa, especially in southern Africa.

15. Middle-income countries have made significant achievements in fighting tuberculosis. One third of middle-income countries register fewer than five cases per 100,000 inhabitants; two thirds have fewer than 15 cases per 100,000. Unfortunately, rates have doubled in every second sub-Saharan middle-income country and significant increases have been registered in most middle-income countries in the Commonwealth of Independent States.

16. Reducing child and maternal mortality rates is a crucial component of development. According to current trends, more than half of all middle-income countries may reduce the under-five mortality rate by two thirds by 2015. Several countries, including Thailand, Maldives, Turkey and Brazil, have already reached the target, while several others could be on track as well with relatively small additional effort. However, in many countries under-five mortality remains a concern; for instance, the rate increased in almost every middle-income country in sub-Saharan Africa.

17. Important improvements have also been made in reducing maternal mortality. Despite scarce data, the proportion of countries reporting more than 95 per cent of births being attended by skilled health personnel doubled between 1990 and 2005, indicating improvements in maternal health. Nevertheless, in some countries, such as the Sudan, Angola and India, only every second birth is attended by skilled health-care workers. Much remains to be done to improve the quality and coverage of healthcare systems and to further reduce child and maternal mortality.

Impediments and key challenges to the development of middle-income countries

18. Middle-income countries and low-income countries often face similar challenges and vulnerabilities. Indeed, several countries have moved between these groups over the past two decades: 14 countries moved from the low-income to the middle-income classification, including India, Maldives, Sri Lanka and China. Seven economies fell back to the low-income group, including Kyrgyzstan, Tajikistan, Uzbekistan and Zimbabwe, and 21 countries temporarily dropped back to the low-income group at least once during the last two decades.

19. High levels of income inequality represent an underlying factor of the vulnerability of most middle-income countries, where, in general, income inequality is higher than in low-income countries. In fact, progress in poverty reduction is often not in tandem with high rates of growth in many middle-income countries; in at least half of them, inequality increased over the past decade. For instance, while a more equal distribution of income seems to have accompanied poverty reduction in Egypt, income inequality remained unchanged in Morocco. Similarly, while inequality decreased in nine countries in Latin America between 2002 and 2007, it increased in the Dominican Republic, Guatemala and Honduras. In fact, the highest inequality in the world is found among the countries in Latin America and the Caribbean, where income per capita of the richest 20 per cent of the population is on average 20 times higher than that of the poorest 20 per cent. In unequal societies, unemployment and underemployment rates after an economic crisis typically stay up for more prolonged periods even after growth is resumed, thus dragging down poverty reduction.

20. Disparities towards achieving the Millennium Development Goals in middle-income countries can be attributable to a number of factors, including the difference among these economies in existing economic structures, their capacity to mobilize domestic resources, the quality of institutions and development strategies. A trend towards increasing divergence in the growth of these economies has been manifest since the 1980s, with growth in Latin America and Africa lagging significantly behind that of much of developing Asia.

21. In many middle-income countries the institutional framework remains weak, hindering social and economic progress. In many instances, social expenditure would need to be increased to reduce inequality and poverty and to provide better social protection to cushion the impact of shocks. In some contexts, existing policies need to be reoriented in order to increase their effectiveness and to reduce their present regressive character, especially in the areas of health and education. A priority should be given to economic security networks, for instance, increasing the education capital of poorer households and pursuing active employment policies. Relevant programmes may consist of selective measures, such as targeted cash transfer programmes that are conditional upon certain compulsory activities, such as

school attendance. However, the fact that a number of middle-income countries, particularly in Latin America and the Caribbean, have implemented such schemes but still face high levels of unemployment, particularly among the youth, points to the need for additional policy efforts.

22. Investment in infrastructure also needs to be strengthened, particularly in Latin America and the Caribbean and in sub-Saharan Africa, as inadequate infrastructure is hampering productive sectors from achieving and maintaining stable growth rates and from integrating more closely with global markets. Moreover, an important economic policy is to adopt a counter-cyclical fiscal policy stance. In contrast to many East Asian economies, a highly pro-cyclical fiscal policy stance in African and Latin American countries has had a negative impact on the long-term growth rate.[3]

23. Climate change is posing an increasingly important challenge to middle- and low-income countries. While developed economies have contributed three quarters of the increase in emissions since 1950, some middle-income economies have become large emitters. It is both necessary and feasible for developing countries to switch to low-emission, high-growth pathways in order to meet the global development and the climate challenge. This requires substantial international support in terms of financial resources, technological know-how and institutional capacity. In line with the principle of common but differentiated responsibilities, the switch will demand a new global public policy agenda that focuses on a broad mix of market and non-market measures while placing a much greater emphasis on public investment and effective industrial policies.[4]

B. Challenging international economic conditions for middle-income countries

24. Most middle-income countries have experienced an accelerated integration into the global economy over the past two decades, gaining greater access to international private capital inflows and expanding their trade flows. Some have clearly benefited from global economic integration, while others have become more vulnerable to external shocks. In general, the external economic environment for middle-income countries in a more integrated global economy remains highly challenging, as attested by a series of international financial and economic crises in the past two decades, including in particular the latest global financial crisis. These crises, regardless of their origin, have all wreaked havoc on middle-income countries.

25. The current global financial and economic crisis has exemplified the vulnerability of middle-income countries in their high dependence on international trade, commodity prices and capital inflows. Prior to the crisis, during the period 2002-2007, most had benefited from a boom in export revenues. Exporters of manufactured goods benefited from a robust global demand for consumer and

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[3] See *World Economic and Social Survey 2006: Diverging Growth and Development* (United Nations publication, Sales No. E.06.II.C.1).

[4] For a detailed analysis on how to promote climate change and development, see *World Economic and Social Survey 2009: Promoting Development, Saving the Planet* (forthcoming); and *UN-DESA Policy Brief No. 17: Reaching a Climate Deal in Copenhagen*, available at http://www.un.org/esa/policy/policybriefs/policybrief17.pdf.

capital goods, while commodity-exporting countries gained from greater global demand for raw materials and fuels. These trends were reflected in strong growth well above the world average in a number of middle-income countries, such as China and India, to an extent that some observers perceived that the growth path of middle-income countries had become more independent ("decoupled") from that of the major developed economies.

26. This notion faded quickly. As the global financial crisis deepened, a retrenchment in consumption and business spending in developed economies led to a collapse in world trade, affecting middle-income countries disproportionately. Global trade flows fell sharply at the end of 2008 and in the first quarter of 2009. Exports of many middle-income countries, particularly those exporting manufactured goods, fell at an annual rate of more than 40 per cent. Meanwhile, commodity prices plunged by about half, substantially reducing export revenues of commodity-exporting middle-income countries.

27. At the same time, net private capital inflows to middle-income countries declined from more than $1 trillion in 2007 to less than $500 billion in 2008. A further halving is expected for 2009. Among the components of net private capital inflows, the sharpest drop was in bank lending, which reversed from an inflow of about $400 billion in 2007 to a net outflow in 2009. Middle-income countries such as the Russian Federation and Ukraine, and several economies in Central and Eastern Europe have experienced the most drastic reversal in international bank lending. Net portfolio equity investments reversed to outflows from emerging economies, while foreign direct investment (FDI) flows are estimated to have declined by more than 30 per cent from the peak of 2007.

28. While external financing costs for middle-income countries surged during the global financial crisis, remittances to these economies, as well as to other developing countries, have moderated significantly, affecting middle-income countries, particularly in the Commonwealth of Independent States, Africa and Latin America and the Caribbean. Consequently, several countries are facing challenges in financing their balance-of-payments deficits and in servicing and rolling over their external debt as risk premia are rising and currency depreciations have increased the cost of external public borrowing.

29. Although the global financial crisis originated in major developed countries, it has had a significant impact on broad aspects of the economic and social development of middle-income countries. It is threatening to unravel many of the development gains of the recent past, making achievement towards the Millennium Development Goals more difficult for many middle-income countries. For instance, it is estimated that the Governments of Bolivia (Plurinational State of), Honduras and Nicaragua would need to spend an extra 1.5 to 2 per cent of gross domestic product (GDP) per year on education, health and basic services between 2010 and 2015 to achieve the Millennium Development Goals, as compared with the pre-crisis scenario.[5]

[5] For more detailed analysis on the impact of the global financial crisis on middle-income countries and other developing countries, see *World Economic Situation and Prospects 2009* (United Nations publication, Sales No. E.08.II.C.2); and *World Economic Situation and Prospects: update as of mid-2009*, particularly box 1, "Impact of the crisis on the Millennium Development Goals in Latin America". Both are available at http://www.un.org/esa/policy/wess/wesp.html.

30. The current global financial crisis has once again revealed the fragile capacity of middle-income countries in dealing with the vicissitudes of external variables. Enhancing the capacity of middle-income countries to cope with external shocks must be considered an integral part of their development strategy for maintaining a sustained robust growth in the long run.

Reducing vulnerability to volatile trade income

31. Middle-income countries as a group have doubled their share in world trade over the past two decades to about 30 per cent in 2007, gaining market share mainly from high-income countries. The ratio of exports-to-GDP expanded rapidly in most middle-income countries, from an average of 19 per cent in 1990 to 34 per cent in 2007. Measured by the average ratio of trade-to-GDP, middle-income countries as a group are actually more open than the group of high-income and of low-income countries. Meanwhile, more than 70 per cent of their exports go to high-income countries.

32. These averages, however, mask an ostensible diversity. While the exports-to-GDP ratio ranges from less than 20 per cent to more than 100 per cent in middle-income countries, the composition of exports also differs significantly, with manufactured goods accounting for more than 90 per cent in some countries and primary commodities accounting for more than 90 per cent in others. Whereas a small group of countries, including China and the major oil-exporting countries, have been running a sizeable surplus on their trade balance in recent years, others have incurred widening deficits, especially in Central and Eastern Europe.

33. Middle-income countries share the challenge of reducing structural and geographical concentration in their exports and strengthening their position in the multilateral trading system to mitigate their vulnerability to external shocks in trade flows and in commodity prices.

34. Structural concentration is especially a problem for many commodity-exporting middle-income countries. In the case of some 30 middle-income countries, more than 50 per cent of exports are concentrated in just a few primary commodities. These economies now face the challenge of maintaining stable export revenues.

35. In a large number of middle-income countries, a third or more of exports is concentrated in one market only, mostly that of the United States of America or the European Union. Such high geographical concentration of trade is often compounded by obstacles in the access to the markets of developed countries.

36. In the context of the Uruguay Round of multilateral trade negotiations, notable progress was made in reducing tariff rates and in converting some non-tariff measures into more transparent measures in developed economies. Many middle-income countries have also substantially reduced their trade barriers over the past 20 years. Yet, middle-income countries and other developing economies are still in a disadvantageous position in the multilateral trading system. They still face a large number of market access constraints imposed by developed economies for both manufactured and agricultural products.[6] In addition to the persistence of tariff peaks and the scaling of tariffs, several non-tariff measures, such as technical

[6] Such constraints are also present in South-South trade.

regulations and standards, sanitary and phytosanitary regulations and anti-dumping and safeguarding measures, impede their market access. Furthermore, in the wake of the global financial crisis, certain potentially distorting trade-related measures have been adopted in some developed economies, either implicitly in their fiscal stimulus and financial bailout packages, or explicitly in their trade policies. Anti-crisis measures may potentially change the level playing field in international trade for the years to come and could be detrimental to the recovery of middle-income countries and of the global economy.

37. While diversification remains important, particularly for commodity-exporting countries, efforts to promote South-South trade can reduce the geographical and structural concentration of exports. Improving the position of middle-income countries in the multilateral trading system in order for them to achieve better access is another important area. In this regard, renewed efforts are needed to ensure that the Doha Round of multilateral trade negotiations can be successfully concluded while preserving its original developmental objectives.

Mitigating vulnerability to international financial instability

38. Private capital inflows to middle-income countries have increased manifold over the past two decades. However, they remain concentrated in some 30 large middle-income countries. With extremely limited access to global capital markets, the rest of the middle-income countries rely on official capital inflows, including official development assistance (ODA) to cover external financing needs.

39. Increased private capital inflows have arguably benefited some middle-income countries, but have also been inextricably associated with an increased number of financial crises. From the Mexican crisis of the mid-1990s, to the Asian and Russian crises of the late 1990s and those in Brazil, Argentina and Turkey in the early 2000s, each featured a sharp reversal of capital inflows and led to tremendous economic and social disruptions, with significant contagion effects destabilizing other economies. The current global financial crisis has again caused private capital inflows to take a sharp tailspin.

40. A high degree of volatility and pro-cyclicality seems to be inherent in the nature of private capital flows, though less so in some components, such as foreign direct investment flows, than in others. Although it is beyond the capacity of middle-income countries to alter the nature of global capital markets, options to mitigate the effects of volatile and pro-cyclical private capital inflows on their economies exist. For example, a fragile domestic financial system, particularly if combined with a premature opening of the capital account, is a key vulnerability to external financial shocks. Middle-income countries thus need to strengthen their financial systems by adopting more active, cautionary and supervisory regulation, and they may need to consider certain capital controls. Building a counter-cyclical macroeconomic policy framework and developing domestic financial markets in accordance with the overall economic development can also reduce the macroeconomic instability caused by foreign capital flows and by volatile trade.

41. Having learned from previous financial crises, many middle-income countries have accumulated foreign exchange reserves as a form of self-insurance to better cope with external financial shocks. This strategy may be effective to help mitigate the impact of country-specific external shocks. Its efficacy has, however, proven to be rather limited in the face of a severe global financial crisis such as the crisis

faced today. Moreover, the opportunity costs and financial implications of holding excessive foreign exchange reserves, such as less finance for investing in development and an appreciating real exchange rate, can be sizeable for individual countries.

42. In addition, the present crisis reveals once again the need for an orderly sovereign debt workout mechanism and an improved framework for cross-border bankruptcies to handle situations of severe debt distress in middle-income countries, which are not eligible to benefit from the heavily indebted poor country initiative. Sustained efforts towards achieving sustainable debt of middle-income countries by improving their sustainable debt management and through debt relief based on current debt mechanisms and debt swap mechanisms on a voluntary basis are needed in order to gain greater fiscal space for counter-cyclical policy measures and to maintain adequate levels of public spending on infrastructure, education, health and social protection in times of crisis.

43. Ultimately, reforms to make the international financial architecture and global economic governance more development centred are the key to reducing the vulnerability of middle-income countries to international financial instability. These reforms will need to address cross-border flows, safeguarding against excessive risk-taking, reforming credit rating agencies, revisiting policies associated with capital account liberalization and aligning reform of financial regulation with the multilateral trading system. They will also include the strengthening of the voice and voting power of middle-income countries in the international financial institutions in accordance with their economic weight in the global economy.

III. Cooperation of the United Nations system with middle-income countries[7]

A. Major achievements in development cooperation with middle-income countries

44. The United Nations system is widely represented in middle-income countries. Resident country teams are present in 83 of them, while the remaining 18, which are all small-island developing States, are served by regional teams. In several of these countries, such as in Egypt, India, Lebanon and the Sudan, more than 20 resident agencies participate in the country team. This engagement is in part also reflected in the resources directed to these countries. For example, middle-income countries receive approximately 34 per cent of the total programme expenditure of the United Nations Children's Fund (UNICEF) and 54 per cent of the annual budget of the United Nations Development Programme (UNDP). In addition, the normative work and policy research of other parts of the United Nations development pillar, including Department of Economic and Social Affairs, the United Nations Conference on Trade and Development (UNCTAD) and the regional commissions, also directly serve middle-income countries.

[7] Findings in this Chapter are based on a questionnaire specifically designed for this report (available at http://www.un.org/esa/policy/publications/dpad_general_assembly_documents.htm). Disseminated to all United Nations country and regional teams in middle-income countries in June 2009, the questionnaire received a 50 per cent response rate.

45. The operations of the United Nations system in middle-income countries are guided by the principles defined in the triennial comprehensive policy review of operational activities for development.[8] In general, the United Nations system is viewed by Governments and civil society actors as a provider of policy and technical advice and is regarded as a politically neutral development partner. As such, it has a defining role in bringing stakeholders together towards shared development goals, particularly the Millennium Development Goals.

46. In advocating and promoting global norms and standards and inclusive development, much of the work of the United Nations system focuses on the elimination of disparities and capacity development issues, promotion of equity and social inclusion, and responding to human rights violations. In this respect, the United Nations is an important facilitator, providing space for all voices to contribute to the development process.

47. Half of the respondents of the survey indicate that the Millennium Development Goals are no longer a high or top priority for the country in which they operate (see annex, table 1). Nevertheless, there is an unfinished development agenda in middle-income countries, as the vulnerability to the impact of the current financial crisis vividly demonstrates. While many Governments in middle-income countries have increased access to resources to address existing and remaining challenges, the lack of clear accountabilities and deficits in the execution of programmes and policies create situations in which the United Nations system can intervene and provide cooperation and assistance in middle-income countries. The United Nations system addresses these development challenges, for instance, by helping to upgrade institutional capacities and professional competencies of partners to enable them to assume greater accountabilities for fulfilment and respect of human rights. The need to do so is particularly important in middle-income countries where inequality is high and where there may be strong resistance of de facto powers (for example, elites) towards basic social and political changes that may lead to a less unequal society. Indeed, governance, discrimination and social rights are considered to be the greatest priorities of the United Nations in middle-income countries in terms of policy advice and capacity development (see annex, tables 2 and 3), with advocacy being considered as the most successful form of engagement in these countries (see annex, table 4).

48. In addition to capacity development and advocacy, upstream policy formulation and implementation and other targeted technical support in various sectors and cross-cutting areas constitute important elements in the contribution of the United Nations to middle-income countries. Drawing upon its global network enables the United Nations to provide a well-founded second opinion and to provide best practices on managing development challenges by drawing upon its global knowledge and experience. Particularly in terms of governance and inequality, it is not surprising that social sector ministries, the legislative branch and non-governmental organizations are the most important national development partners in middle-income countries (see annex, table 5).

[8] See A/RES/62/208.

49. In most middle-income countries, the United Nations has supported national aid coordination efforts as requested by the triennial comprehensive policy review.[9] Thus, in the former Yugoslav Republic of Macedonia, for example, it was a leading partner in a number of strategic thematic areas so as to better promote assistance and make aid more effective, in line with the principles of the Paris Declaration on Aid Effectiveness adopted in 2005 to increase efforts in harmonization, alignment and managing aid, as well as the Accra Agenda for Action of 2008, which identifies ownership, effective and inclusive partnerships and accountability as key elements to aid reform. Similarly, the United Nations system provided expert assistance in drafting the national development and cooperation strategy, thereby actively supporting the national development dialogue in Croatia and in Panama, for example.

50. The United Nations also provides technical support to a wide range of national and regional strategies and policies and action plans in middle-income countries. In doing so, it focuses on sharing international experience and knowledge with national partners, and has included, among other things, the development of country poverty assessments, national HIV/AIDS strategy papers, gender issues, such as developing of national plans for gender equality, and regional and national public health policies. For instance, in the Dominican Republic, the United Nations system was important in improving national capacity to respond to natural disasters and to diseases and other national health problems, as well as in establishing a legal framework to protect children. Similarly, in Paraguay it worked with the Ministry of Health on capacity-building in the health sector and on the implementation of policies, norms and procedures in relation to most common diseases and risks. Indeed, national country teams of the United Nations consider the Millennium Development Goal relating to communicable diseases as the goal of the highest priority in middle-income countries (see annex, table 1).

51. The United Nations also plays a significant role in fostering the role of middle-income countries in the system of international relations, especially with regard to the management of global public goods, and in increasing awareness on international treaties, obligations and conventions. Technical support and capacity-building provided by the United Nations has contributed to improvement of economic policy frameworks, and has enabled, for instance, accession to the World Trade Organization (WTO) in the case of Ukraine. Moreover, normative support and facilitation of the United Nations system helped the Government of Cape Verde to position itself to regional and other stakeholders (private sector and civil society) at global conferences and meetings in terms of finding its own policy standpoint.

52. Development cooperation is also seen as the avenue for promoting intersectoral approaches to policy and programmes, and public sector/private sector partnerships, and for facilitating peer-to-peer engagement, capacity development and sharing experiences and successes within and across regions. In fact, middle-income countries play a key role in promoting South-South cooperation with their peers and with low-income countries. While China, Brazil, India and South Africa are at the forefront of South-South cooperation, a number of other important providers are found in all developing regions. These middle-income countries act as regional economic hubs, engendering neighbouring effects on the development of low-income countries in their regions. Their cooperation comes in a number of

[9] See A/RES/62/208.

forms, including, for instance, debt relief, technical assistance and cooperation, infrastructure investment, trade financing, institution-building, public administration reform and humanitarian assistance, enabling low-income countries to benefit from the experiences of middle-income countries.

53. The United Nations system is actively engaged in such cooperation. For instance, the Development Cooperation Forum of the United Nations Economic and Social Council aims at generating better information and understanding of South-South cooperation, with a view to informing policy discussions and helping articulate the voice of Southern providers in multilateral forums.[10] Moreover, the United Nations is active with other development partners to share information about development policies and programmes; to sensitize partners to the country's development challenges; to develop a coordination database; and to identify areas of common concern and potential for joint programming. In several countries the United Nations Development Assistance Framework, which is the strategic programme framework for country teams, has been aligned with national development plans, in terms of both timing and priorities. For instance, in Botswana the United Nations Development Assistance Framework has identified five thematic areas of cooperation drawn from priorities defined in the macroeconomic analysis prepared for the country's national development plan. These are a direct response to the national priorities in accordance with the Government's pursuit of the Millennium Development Goals and its long-term development objectives.

Gaps and constraints

54. Notwithstanding these achievements, several constraints hinder the United Nations system from realizing its full potential in supporting middle-income countries.

55. The survey noted that harmonizing the operational policies and procedures of the United Nations could reduce transaction costs, reduce duplication and increase efficiency and capacity. Moreover, there was potential to enhance joint programmes and to increase and strengthen coordination within individual country teams. Indeed, while designing and implementing an effective joint communication strategy would contribute greatly to attaining that goal, the United Nations system needed to function as a cohesive unit with a well-defined leadership and management structure and a joint pool of resources distributed according to clear objectives.

56. Based on the outcome of the independent evaluation of the "delivering as one" initiative, it is important to further develop a unified United Nations system for designing and implementing its programmes in a coherent and coordinated manner in consultation with Governments of the respective host countries, ensuring alignment with national priorities. The United Nations system must also strengthen its work at the subnational level and engage more with operational-level officials in central and line ministries to strengthen longer-term relationships with the Government. The United Nations Development Assistance Framework must be closely aligned to the country's development priorities, in terms of both harmonizing planning cycles to be fully effective and ensuring involvement of all development partners. This will require rethinking the United Nations Development

[10] For more information on the Development Cooperation Forum, see http://www.un.org/ecosoc/newfunct/2008dcf.shtml.

Assistance Framework around priorities of middle-income countries, as well as addressing modalities of engagement of the United Nations system in these countries.

57. At present, the United Nations system has no well-defined agenda that guides its substantive programme content towards the priorities of middle-income countries. Several United Nations country teams have been redefining their agendas; however, a clear approach that defines guidelines and sets priorities in middle-income countries is needed, rather than to proceed on an ad hoc basis. While some aspects, such as South-South cooperation or more traditional development areas may be more relevant to some countries than others, greater focus of the United Nations system on advocacy and upstream policy advice with a view to developing capacity for Governments to design and implement policies is needed. This focus must be on the development challenges that are most relevant to middle-income countries, including ensuring that more resources are allocated towards productive sectors to stimulate employment generation and sustainable development, especially in contexts where significant social sector progress has already been achieved.

58. Moreover, as income-levels increase, access in some of the larger funds and programmes to financial resources is often restricted to some minimal level necessary to maintain agency presence, and small-scale operations such as funding of agencies is decreased. The lack of, and the difficulty in, mobilizing resources constitutes a further principal constraint to the activities of the United Nations in middle-income countries, compromising the ability of the United Nations to become more responsive to priorities set by the Governments.

59. Responsiveness to the specific needs of middle-income countries requires that adequate operational systems remain in place. It also requires that the United Nations be able to provide the highest-quality policy advice on short notice. Moving towards a more upstream intervention model will require greater selectivity of programme priorities that are relevant in middle-income countries. It will also place greater emphasis on joint programmes to enhance the impact on selected, targeted outcomes. This will necessitate changes to organizational set-up, systems and staffing, in particular as greater emphasis on advocacy and coordination may require the availability of policy experts. This may lead to a review of United Nations staff profiles for middle-income countries and of the capacity-building needs of United Nations staff in these countries.[11] It may also lead to an organizational framework where local-level experts are increasingly complemented by regional-based policy advisers and the use of the expertise of non-resident agencies. This will ensure the facilitation and provision of greater levels of expertise in host countries, while recognizing, however, the value that many Governments place on the physical presence of the United Nations as a link to the international community in their country.

B. Engagement of international financial institutions in middle-income countries

60. International financial institutions, including the World Bank Group, the International Monetary Fund (IMF) and a number of regional multilateral

[11] See E/2009/75.

investment banks, are also important partners for development cooperation with middle-income countries.

61. An evaluation report of 2007 indicated that most country strategies of the World Bank had brought together tools, namely, finance, knowledge and convening power, in a fairly well integrated fashion, but that for some 30 small-State middle-income countries, the mix of tools used by the World Bank had fitted less well with country conditions.[12]

62. The macroeconomic and structural policy of the World Bank has been combined with policy-based lending in several countries. Projects financed by the World Bank in several sectors help facilitate growth, including those in infrastructure, although lending for infrastructure needs to be increased as new commitments have not yet reached previous levels after a significant decline in the 1990s.

63. The World Bank has paid significant attention to poverty issues in middle-income countries, including helping to quantify and analyse its incidence and assisting in developing responses to particular poverty issues. However, as the evaluation report showed, during the financial crises of the 1990s and early 2000s, neither the World Bank nor the authorities had strong contingency plans in place to protect the poor. Furthermore, World Bank support of broader social protection reforms had apparently lacked sustained government ownership and seemed to have had little effect over the longer run.

64. Less progress has been made on important issues beyond the growth agenda. For example, in its work, the World Bank has shown increasing awareness of the rising inequality in middle-income countries, but this has not been enough to help countries deal convincingly with the problem.

65. Meeting environmental challenges in middle-income countries has also proven difficult. Most country assistance strategies in middle-income countries mention environmental issues, and some country programmes have helped deliver satisfactory progress by positioning environmental issues as integral to the sustainable growth agenda. This experience has not been widespread, however, and lending for projects mapped to the Environment Sector Board have performed poorly compared with projects in other sectors.

66. Most recently, the World Bank has made greater efforts to make its business model more responsive, flexible and innovative. Actions are under way to reduce the cost of doing business with the World Bank. Beyond financial and knowledge support, the World Bank is also increasing its efforts to work with middle-income countries in a wide array of areas, ranging from climate change and energy security, to trade and food production. The World Bank also realizes that it must demonstrate best practice in its support to middle-income countries, particularly through stronger country partnership strategies developed jointly with middle-income countries; by improving the range of services offered to middle-income countries, notably financial services and the blending options,[13] by fostering links between World

[12] World Bank, *Development Results in Middle-Income Countries: An evaluation of the World Bank's Support* (Washington, D.C., 2007).

[13] Although middle-income countries are generally not eligible for the World Bank's International Development Association (IDA) lending, 13 middle-income countries are classified as "blend countries" and remain IDA-eligible.

Bank research and middle-income country needs; and through better management of World Bank expertise across all networks.

67. Other development banks, in particular multilateral regional development banks, also play an important role in middle-income countries by supporting economic development and assisting in regional integration efforts, even though a number of middle-income countries have become more reliant on capital markets than on the regional banks for external financing. In principle, these multilateral and regional development banks provide strategic advice on policies and financial services, including banking services and asset management; and they provide knowledge and technical assistance services.

68. For the International Monetary Fund (IMF), macroeconomic and financial stability is a key area for engagement in middle-income countries. With a tremendous increase in the volume and volatility of international private capital flows over the past two decades, the functioning of IMF in this area has come under considerable pressure. Its lending capacity has proved very limited relative to the size of global private capital flows, while the rigidity of its lending conditions to middle-income countries have been frequently subject to criticism. Since the onset of the current crisis, however, IMF has measurably changed its lending framework.

69. The G20 leaders have pledged to triple the lending capacity of the IMF to $750 billion and approve a general allocation of special drawing rights (SDRs) equal to $250 billion. Strengthening the resource base of IMF and improving its lending toolkit to address the global crisis should, however, proceed with longer term reform to boost the Fund's governance and legitimacy. The G20 has called upon IMF to complete the next review of quotas, including further improvement of representation for emerging and developing countries, by January 2011.

70. Along with meeting immediate country needs, IMF has moved to overhaul its lending toolkit and conditionality framework. While IMF has indicated that it is committed to providing larger amounts and more upfront financing across a wide range of its facilities, it has doubled all loan access limits and has simplified the surcharge framework. It has also established a crisis prevention instrument, the flexible credit line, to provide assistance to members with strong economic policies and proven track record in the form of large and upfront access to IMF resources in case of need with no ex-post conditionality. Colombia, Mexico and Poland have already signed up for this new facility for an amount totalling $78 billion. For other middle-income countries that may need large precautionary arrangements but that have to go through policy adjustments, there is a new high access precautionary arrangement, which is also characterized by large and frontloaded access, but requires ex-post monitoring.

71. Structural performance criteria have been discontinued for all IMF loans since 1 May 2009, although structural reforms will continue to be part of IMF-supported programmes, with their implementation monitored through increasing reliance on a review-based approach.

72. Much of the recent changes in lending facilities have been focused on precautionary arrangements. However, there is scope for further innovation in how resources in drawing programmes are deployed to middle-income countries, including the support of counter-cyclical fiscal measures and addressing the problems in corporate and banking sectors.

IV. Conclusions and policy recommendations

73. The importance of middle-income countries in realizing the United Nations agenda of development for all, including the achievement of the Millennium Development Goals, calls for the continued engagement of the United Nations system and of other international organizations, including international financial institutions, in development cooperation with middle-income countries.

74. The United Nations system, along with international financial institutions, has provided development cooperation with middle-income countries. It is widely represented in these economies and covers a wide spectrum of development cooperation, ranging from social policy, governance, technology, energy, agriculture and natural disasters, to the implementation of the Millennium Development Goals via policy advice and capacity-building.

75. However, development cooperation between the United Nations system and middle-income countries needs to be strengthened, including by aligning the programming of United Nations activities much more closely with national strategies and policies and the specific existing and emerging needs of middle-income countries.

76. To do so, under the existing platform of "delivering as one" and its independent evaluation, the United Nations system needs to develop a more specific policy framework for middle-income countries. This framework should produce a coherent set of principles for guiding cooperation strategies and policies that would dovetail the dynamic and diverse circumstances in middle-income countries. The set-up of this common framework requires close cooperation among all operation agencies and offices in the areas of policy analysis and normative work in the United Nations system.

77. At the regional and country levels, regional coordinators and country teams must specifically tailor their strategies and programmes to the special needs of individual middle-income countries. They must also promote greater country ownership for those strategies and programmes, which should be developed in line with the mandates of the triennial comprehensive policy review of operational activities for development, which guides the engagement of the United Nations in all countries.

78. All United Nations agencies must streamline and expand their professional practice networks, so that their expertise is relevant to the development challenges that middle-income countries face. Greater use must be made of the expertise of non-resident agencies in providing support to middle-income countries.[14]

79. While the foci may vary from country to country, for middle-income countries as a group priorities must be given to development cooperation areas such as poverty eradication, improvement in governance, reduction in economic and social inequality, greater diversification to reduce vulnerability of trade and external financing shocks, South-South cooperation, and to concerted efforts to enhance action on adaptation, mitigation, technology development and transfer, and finance to enable middle-income countries to tackle the challenges that global climate change poses.

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[14] See E/2009/L.19.

80. In the broad context of promoting South-South and regional cooperation, the United Nations system must promote sharing of information, development experiences and best practices among middle-income countries and other developing countries and strengthen their voice in international forums.

81. International financial institutions still hold a key responsibility for helping middle-income countries meet their financing gaps for long-term sustainable development and for maintaining a stable international financial condition to reduce the external vulnerability of these countries. This includes developing an orderly sovereign debt workout mechanism with a view to achieving debt sustainability in middle-income countries.

82. Owing to the growing impact of the global financial and economic crisis on middle-income countries and other developing countries, international financial institutions need urgently to deliver a timely and adequate transfer of financial resources to these economies. Sufficient liquidity is needed to compensate for the sharp reversal in international private financial inflows and to ensure that long-term debt sustainability is achieved and sustained. Moreover, the policy space in these economies needs to be enlarged so that counter-cyclical policies can be adopted and the adverse effects of the crisis on the achievement of long-run development goals can be mitigated. This will, however, require a substantial change in the lending framework of international financial institutions to avoid repeating the same compounding effects associated with the lending policies to some middle-income countries as during the crises of the past.

83. A significant reform of the international financial architecture is needed. Reform of the Bretton Woods institutions to increase the voice and voting power of middle-income countries is under way but needs to come to a swift conclusion to enable these countries to engage with a stronger voice in the discussion of the more fundamental reforms of the financial architecture needed to reduce the systemic risks of repeated global financial and economic instability.

84. Finally, while this report adopts the ad hoc definition of middle-income countries used by the World Bank, the legitimacy and relevancy of using this definition as the benchmark for guiding development cooperation policy of the United Nations system should be questioned. A much broader measurement of development, rather than income alone, may be more appropriate for classifying countries in international development cooperation. This report recommends further study of this issue.

Annex

Table 1
Key development areas of the United Nations development system in middle-income countries
(Percentage)

	Top priority	*High priority*	*Moderate priority*	*Low priority*	*Very low priority*	*No priority at all*
Millennium Development Goals	24	20	55	0	0	0
Goal 1: Eradicate extreme poverty and hunger	26	55	13	4	0	2
Goal 2: Achieve universal primary education	15	60	8	13	4	0
Goal 3: Promote gender equality and empower women	26	64	9	0	0	0
Goal 4: Reduce child mortality	19	10	56	13	2	0
Goal 5: Improve maternal health	19	67	9	6	0	0
Goal 6: Combat HIV/AIDS, malaria and other diseases	70	11	11	7	0	0
Goal 7: Ensure environmental sustainability	28	66	4	2	0	0
Goal 8: Develop a global partnership for development	17	64	15	2	2	0

Table 2
Key policy areas to provide policy advice to middle-income countries
(Percentage)

	Top priority	*High priority*	*Moderate priority*	*Low priority*	*Very low priority*	*No priority at all*
Trade policy	4	59	10	10	8	8
Macroeconomic policy	8	68	12	6	2	4
Infrastructure planning	4	4	35	35	9	13
Social policy	38	60	0	0	2	0
Governance	87	11	2	0	0	0
Energy	14	68	12	2	2	2
Technology (information and communications, etc.)	4	33	21	25	13	4
Agriculture	21	25	29	17	8	0
Decentralization and local development	19	68	11	0	2	0
Discrimination and social rights	70	23	8	0	0	0
Conflict prevention	16	12	24	16	8	24
Disarmament	0	0	17	4	13	65
Natural disasters	22	35	22	22	0	0
Other	38	54	0	8	0	0

Table 3
Key policy areas to provide capacity development in middle-income countries
(Percentage)

	Top priority	*High priority*	*Moderate priority*	*Low priority*	*Very low priority*	*No priority at all*
Trade policy	0	63	10	14	6	6
Macroeconomic policy	8	65	10	8	6	4
Infrastructure planning	4	9	26	26	13	22
Social policy	26	66	8	0	0	0
Governance	81	17	2	0	0	0
Energy	14	67	14	0	0	4
Technology (information and communications, etc.)	4	33	21	17	17	8
Agriculture	8	42	25	13	13	0
Decentralization and local development	21	66	11	0	2	0
Discrimination and social rights	67	25	8	0	0	0
Conflict prevention	8	24	12	20	12	24
Disarmament	0	4	9	9	13	65
Natural disasters	16	40	32	12	0	0
Other	44	56	0	0	0	0

Table 4
Approaches that are most successful in their engagement in middle-income countries
(Percentage)

	Top priority	*High priority*	*Moderate priority*	*Low priority*	*Very low priority*	*No priority at all*
Advocacy	77	20	2	2	0	0
Policy and legislation advice	34	63	0	4	0	0
Normative	62	21	15	0	0	2
Capacity development of public officials	20	27	51	2	0	0
Capacity development of non-State actors	52	33	13	2	0	0
Convening actors across sectors to implement plans and policies	71	13	13	4	0	0
Monitoring policy implementation and/or global commitments	18	73	4	4	2	0
Other	67	33	0	0	0	0

Table 5
Key players with which United Nations country teams are engaged in middle-income countries

(Percentage)

	Top priority	*High priority*	*Moderate priority*	*Low priority*	*Very low priority*	*No priority at all*
Government agencies						
Foreign ministry	35	11	49	4	2	0
Economic and development ministry	33	60	5	2	0	0
Trade ministry	8	12	32	24	12	12
Central bank	0	25	25	8	21	21
Finance ministry	14	68	12	2	4	0
Social sector ministries (health, education, women affairs solidarity)	89	11	0	0	0	0
Presidency/parliament/prime ministers office	76	15	2	5	2	0
Judiciary	30	37	26	7	0	0
Other Government agencies	82	12	6	0	0	0
Business sector: industrial companies	4	18	54	18	4	4
Non-profit organization	55	30	11	2	2	0
Non-governmental organizations	66	27	7	0	0	0